



Detroit Bond Overview

Office of the Chief Financial Officer
Treasury – Debt Management

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What is a Municipal Bond?

A municipal bond is a local government's written promise to repay money it borrowed.

- ✓ A bond is considered “issued” when the local government exchanges its bond for cash.
- ✓ The lender (or investor) is considered the “buyer” of the bond.
- ✓ The money loaned to the local government is called bond proceeds.
- ✓ Bond proceeds are generally used by local governments to finance capital projects (e.g., buildings, highways, sewer system improvements, etc.).



What is a Municipal Bond? (continued)

The repayment terms are agreed upon when the bonds are sold.

- ✓ A document called the Official Statement describes the essential terms of the bonds and discloses important information about the issuer.
- ✓ The local government repays the loan (the “principal” amount of the bond) with interest over time, typically between one and 30 years from issuance.
- ✓ Payments of interest are usually made every six months. The principal is due at the “maturity date”, when the life of the bond ends.

Bonds are generally issued as “serial bonds” and “term bonds”.

- ✓ With serial bonds, the bond issue is separated into individual bonds that mature in consecutive years.
- ✓ A term bond has a longer maturity date (e.g., 20 years from issuance), but may require the local government to repay portions of the bond in different years prior to the final maturity.
- ✓ A bond issue can have both serial bonds and term bonds.

Core Concepts

Can Detroit issue municipal bonds?

Yes, to the extent authorized by Michigan law. Most borrowings by local units in Michigan are subject to the Revised Municipal Finance Act, Public Act 34 of 2001.

In general, bonds issued by local governments in Michigan require either voter approval or a right of referendum period (where voters can petition to have the question put on the ballot).

Why does Detroit issue municipal bonds?

Detroit—like other local governments—issues bonds to fund certain projects that benefit current and future residents.

The City of Detroit has a [Debt Issuance and Management Policy](#) that describes the guidelines and considerations related to the issuance of bonds.

Detroit Debt Issuance and Management Policy

Objectives

- 1 Consider the impact of new debt on the City's taxpayers and operating budget
- 2 Maintain high quality decision-making for long-term capital and financial planning
- 3 Adhere to all federal, state and local laws and regulations, and comply with IRS rules and regulations
- 4 Manage the City's debt program while retaining the highest possible credit rating
- 5 Minimize the City's debt service and costs while maintaining access to capital markets

City's Guidelines

- ✓ Make all principal and interest payments on time
- ✓ Comply with all IRS spending and reporting requirements
- ✓ Promote debt transparency
- ✓ Use long-term debt for capital purchases, construction, demolition, rehabilitation and other uses as described in the Capital Agenda
- ✓ Avoid issuing short-term debt for operations
- ✓ As debt paid from the general fund is reduced, use the revenues to support legacy pension costs and to increase the City's budget reserve

Types of Bonds Issued by Detroit

General Obligation (GO) Bonds

- ✓ Issued to finance infrastructure, libraries, fire stations or other public buildings or other capital improvements
- ✓ Backed by the full faith and credit of the local government issuing the debt
- ✓ Principal and interest is paid from taxes and general fund revenues
- ✓ State law sets limits for GO debt

Revenue Bonds

- ✓ Issued for specific infrastructure projects that generate revenues:
 - Water and sewer systems
 - Garbage and refuse disposal facilities
 - Electric and gas utilities
 - Transportation
- ✓ Principal and interest is paid from project revenues
- ✓ State law does not set limits for revenue bonds

Two Types of General Obligation Bonds:

1. Unlimited Tax General Obligation (UTGO): The municipality pledges its tax revenues unconditionally, and levies a debt millage on property values to pay the interest and principal on the debt as it matures.

- ✓ Must be authorized by City Council and approved by voters, and City Council approves the language that appears on the ballot
- ✓ Government annually sets debt millage at rate necessary to pay
- ✓ *The Bonds approved with Proposal N are UTGO Bonds*

2. Limited Tax General Obligation (LTGO): Backed by full faith and credit of the City and does not provide any additional revenue to fund payments beyond existing revenue sources.

- ✓ Issued under the authorization of City Council
- ✓ Because the voters have not been asked to approve a tax increase to pay for the principal and interest, only existing general fund revenues are used pay the debt service on LTGO
- ✓ State law may require the City to publish a notice in the local newspaper and provide a referendum period

Key Bond Terminology

Principal	The amount of money borrowed, also known as the “face amount” of the bond or “par value”. Bonds are generally issued in multiples of \$1,000.
Issuer	The local government selling the bond. Detroit is an issuer. Other examples of issuers include city, county and state governments.
Coupon	The annual interest rate paid on the issuer's borrowed money (generally paid in two halves semiannually). <i>Hint: The coupon is always tied to a bond's face or par value, and is quoted as a percentage of par. For instance, a bond with a par value of \$1,000 and an annual interest rate of 5% has an annual coupon of \$50: $5\% \times \\$1,000 = \\50.</i>
Maturity Date	A specific date when the bond must be paid back at its face value.
Term	Years to maturity. A bond that matures in one to three years is referred to as a short-term bond. Medium-term bonds are generally those that mature in four to 10 years, and long-term bonds are those with maturities greater than 10 years.
Debt Service	The total amount of interest and principal that Detroit owes each year.

Sources: Detroit Debt Issuance and Management Policy 2020
FINRA, <https://www.finra.org/investors/learn-to-invest/types-investments/bonds/bonds-basics>



Proposal N (Neighborhood Improvement) Bonds

The Neighborhood Improvement Program (NIP) Bonds in the amount of \$250,000,000 (the “principal”) were authorized by a bond authorizing resolution adopted by City Council on July 21, 2020 and at an election on November 7, 2020 by over 70% of City voters.

The first series of these bonds, called UTGO 2021 in the par amount of \$175,000,000 were priced (sold) in the market on February 4, 2021 and the closing for this sale occurred on February 11, 2021.

Investor interest for the UTGO 2021 bonds was very strong. On the day of pricing, the bonds were 20 times over-subscribed, meaning that there were over \$3.4 billion in orders for the \$175 million in bonds being offered for sale by the City. As a result of this strong market demand, the City was able to negotiate lower interest rates and secured a 3.36% interest rate on the bonds.

The City marketed these bonds with the “Social Bond” designation to attract Environmental, Social, and Governance (ESG) focused investors that are interested in financing socially beneficial projects.

More information on the use of proceeds for these bonds can be found on the [Detroit Demolition Department](#) site.

City Bond Reporting

In addition to the City NIP Bonds, the City has other bonds outstanding. On a quarterly basis, the City publishes the Quarterly Financial Report, which is sent to the City Council and posted on the City's website. Contained in this report is a list, including amounts, of all the City's outstanding debt, how much principal and interest is due for the fiscal year, and how much debt service has been paid to date. This report also includes the individual debt service schedules for each bond issue and charts showing debt service for the City's aggregate UTGO and LTGO debt.

This debt report is updated on a quarterly basis and posted on the [Detroit OCFO's website](#) under the [Financial Reporting page](#).

Additional information about the City's outstanding debt is also available in the City's [Comprehensive Annual Financial Report](#) in the footnote disclosure of all outstanding bonds.

Additional Resources

For information on Detroit's Finances, review the [OCFO Financial Reports](#).

For an overview of Municipal Securities, check out the [MSRB Education Center](#). The MSRB is the federal regulator of Municipal Securities.

For updated data and information on the municipal securities market, look at the [EMMA website](#), which monitors all bonds issued by city and state governments.



Thank You

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